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Response of the Riverside County  
Assessor to the 1976-77 Assessment  
Practices Survey of the State  
Board of Equalization

*Tax Assessment Riverside*

by  
Frank C. Seeley  
1 Riverside County, Assessor 2  
September 7, 1977

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COUNTY OF RIVERSIDE  
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4080 Lemon Street  
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Telephone (714) 787-6331

Honorable Board of Supervisors  
County Administrative Center  
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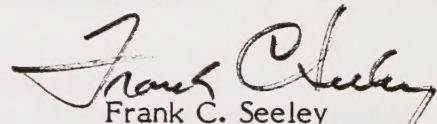
Gentlemen:

Pursuant to Section 15645 of the Government Code, I present herewith my response to the State Board of Equalization's 1976-77 Assessment Practices Survey of Riverside County.

This is the second Assessment Practices Survey of Riverside County conducted by the State Board under current statutes. The first was published in 1971-72 and contained 64 Recommendations aimed at correcting organization and operational problems in the Riverside Assessor's office. By contrast the 1976-77 Survey contains only 19 Recommendations. Many of the problem areas associated with these recommendations were known to the Riverside County Assessor and were in the process of resolution at the time the survey was being conducted in the Spring of 1976.

I wish to express appreciation to the members of the State Board of Equalization's Survey Team for the professional manner in which the survey was conducted.

Respectfully submitted,

  
Frank C. Seeley  
Assessor

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Response of the Riverside County

Assessor to the 1976-77 Assessment

Practices Survey of the State

Board of Equalization

Recommendation 1: Increase the use of interim reviews (percentage increases) to update appraisals.

Some appraisals have been updated in recent years using percentage increases on an interim basis, in largely homogeneous areas with high property uniformity. We have been very selective in the application of percentage increases for updating appraisals because gross inequities could result in areas where properties are not homogeneous. This situation prevails in much of Riverside County. However in order to keep pace with rapidly increasing real estate values, this office will prudently apply percentage increases in value whenever feasible.

Recommendation 2: Revise procedures for estimating cash equivalents.

We have discussed cash equivalent procedures with the State Board staff on numerous occasions in recent years. Our position is that with the activities of nine district offices to coordinate we have placed a premium on the development of a uniform procedure for processing cash equivalents. To this extent the application of the procedure in some instances may appear rigid.

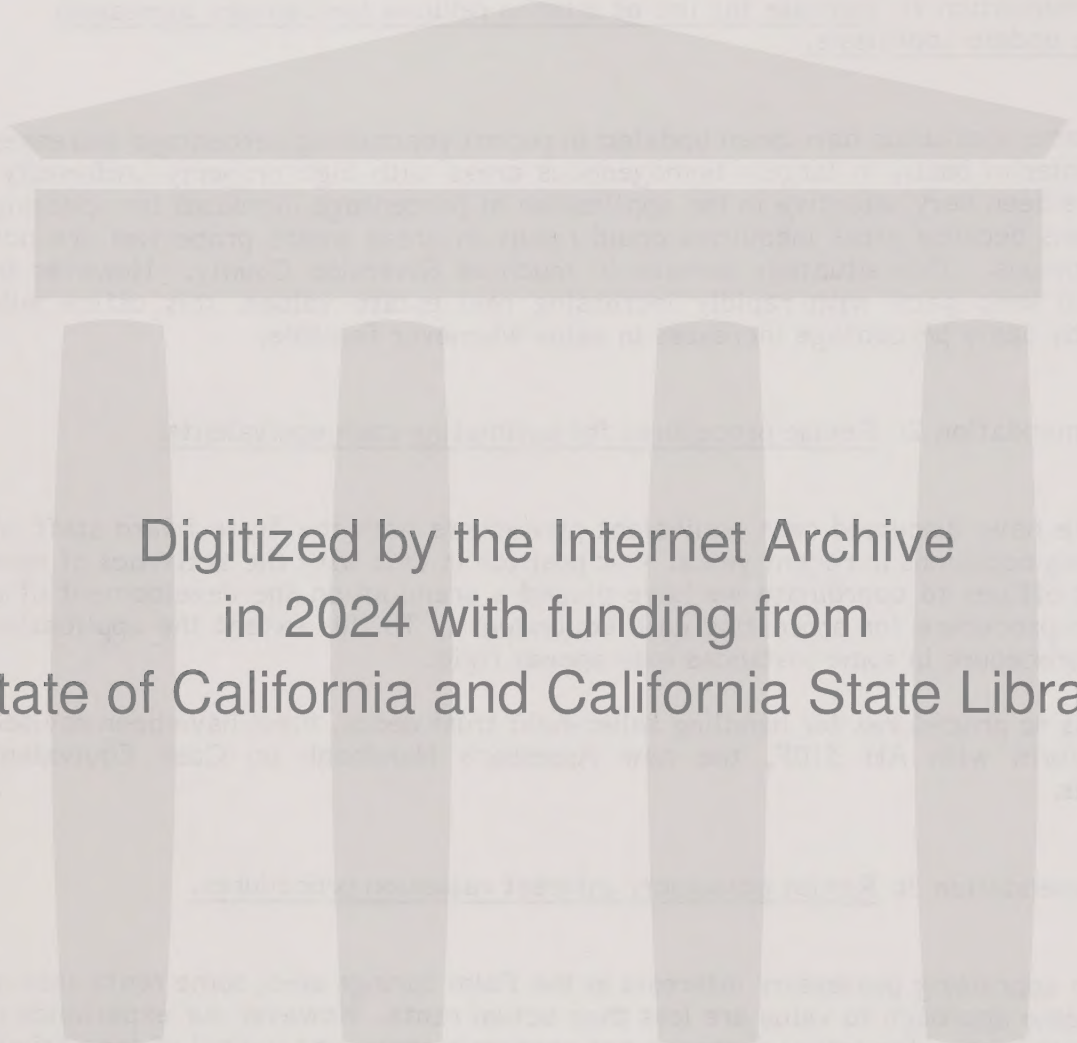
As to procedures for handling seller-held trust deeds, these have been revised to conform with AH 510F, the new Assessor's Handbook on Cash Equivalent Analysis.

Recommendation 3: Revise possessory interest valuation procedures.

In appraising possessory interests in the Palm Springs area, some rents used in the income approach to value are less than actual rents. However our experience is that these particular actual rents are not economic rents, not typical of the various types of occupancy and use in this area.

With regard to the term of leases, our position is that unless existing leases contain options for extension, the Assessor must recognize the stated term of possession. However if it can be determined that there is a tacit agreement between the parties to extend beyond the original termination date, a longer term may be justified.

We concur that there is need for further documentation of land value derivation and term of possession in some cases, and that more frequent appraisal coverage for residential possessory interests is needed. We are accelerating our appraisal cycle for possessory interests, as well as for all classes of property on the secured roll.



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Recommendation 4: Employ the methods described in Assessor's Handbook 560 in the appraisal of mining and quarrying properties. These methods include the use of prevailing royalty rates and the use of the total property approach for integrated mineral operations.

We concur in this recommendation because we believe that the methods described in AH560 are being used in the appraisal of mineral properties in Riverside County. We do take exception, however, to some of the details discussed under this recommendation.

Prevailing royalty rates are being utilized when market data substantiates that they are, in fact, "economic" royalty rates. The suggestion in the Survey that we used an incorrect royalty rate in the valuation of a particular property is not borne out by the facts: We used an "economic" royalty rate derived from other leases and sales of comparable properties in the same area as the property in question. The lease on the subject property is highly unusual and not typical for properties of this sort.

We also believe in using the total property approach in the valuation of an integrated mineral operation, when the facts and situation warrant it. In the two instances discussed in the Survey, we believe that our use of the cost approach was justified.

In the first instance, the plant and equipment are old; the beehive kilns were built in 1925, 1926 and 1927. The total plant product is almost exclusively brick. Approximately 80% of the extracted minerals (clays) are hauled, by truck, to another company-owned plant in Orange County. To apply the total property concept properly, both the Riverside County plant and the Orange County plant would have to be included as a "unit" in the appraisal.

In the second instance, where it is suggested that we incorrectly analyzed an income statement submitted by the property owner, our review indicates that detailed Profit and Loss Statements were used in the appraisal of this property; further, that our primary reliance on the cost approach in the appraisal of this property produced a total appraised value on this property that was almost exactly the same as a State Board of Equalization appraisal of the property using the income approach.

As to Technical Shortcomings page 19, now that three full year's production figures are available a better production estimate can be obtained for this operation. It should be noted that the production decline rate of 40% that was utilized in the appraisal of this property was suggested by a knowledgeable member of the State Board of Equalization appraisal staff. This appraisal is reviewed annually.

The example cited where an improper estimated remaining life was utilized is another clay products company. The reference is to one of eight pits currently being mined. At this time the operator has not explored or proven that additional reserves of this type of clay exist on the subject properties. Therefore, in our judgment, a 5 year remaining life for this operation is not inappropriate.

Finally, mineral production rates, operating expenses, and product prices were and are in the files. Additionally, graphic records have been prepared and will be updated each year as suggested.





Recommendation 5: Expand and refine the total property appraisal program for selected industrial and commercial properties.

The Riverside County Assessor has had a total property appraisal program in effect for industrial and commercial properties since 1971. The program is continually reviewed and evaluated to improve its effectiveness.

Currently unsecured assessments are being cross referenced to secured parcel numbers on the property data base for the 1977 Roll. Additionally 1977 property statements are being specially coded to identify those properties that will require total property appraisal. These codes will be imprinted on the 1978 property statements to facilitate processing.

Recommendation 6: Revise open-space valuation procedures.

Non-living Improvements: The criticism regarding procedures for valuation of non-living improvements in the desert area is valid, and the recommended change in procedure will be implemented when open-space properties are comprehensively reviewed next year.

Living Improvements: Estimating the shape, size, and duration of the income stream of living improvements requires serious analysis of three critical factors:

1. Average production
2. Average return per unit of production
3. Average cost per unit of production

Most of the trees and vines in agricultural preserves are in the stable production period. So the suggestion made in the survey that capitalization of income should be based on the premise of a level terminal annuity has an apparent validity. However our studies of production and costs clearly indicate that our present practice of using the straight line declining income capitalization method is the most appropriate approach at this time.

Net Income Estimates for Farmland: This recommendation will be taken under advisement. In general \$60/acre has been used as fair economic rent in the Indio area. The rent pattern in this area is very homogeneous. Rents of \$100 per acre are exceptional and typically apply to specialty crop properties.

Revaluation of Open-Space Properties: The recommendation that land subject to open-space restrictions be revalued only when there are significant changes in either net income or capitalization has been implemented.





Recommendation 7: Reduce reliance upon "bench mark" estimates when appraising rural property. The appraisers should use the bench marks as guidelines.

This recommendation refers to appraisal practices in the lower Coachella Valley and inferentially to the Palo Verde Valley. The same basic appraisal system is employed in each area.

A 1976 appraisal of the Palo Verde Valley resulted in a bench mark of \$900/acre on the basis of 39 usable sales. Coincidentally, a portion of the lower Coachella Valley which was also reappraised for 1976 also contained 39 usable sales, but resulted in bench marks ranging from \$1,050 to \$2,050/acre. Both were sound appraisal programs, based on systematic and proper analysis of all available data.

The appraisal system utilized was developed in 1961 as a modification to the Storie Index System. The practical results of this system have been the establishment and maintenance of an appraisal data base which the agricultural community has accepted as accurate and equitable, and which has been consistently upheld by assessment appeals boards.

Essentially all the system does is convert sales to a reasonably comparable physical basis; i.e., land with canal water, good soil, good drainage, adequate leveling, etc. The appraiser then measures the affect of these factors for the value of each parcel being appraised. Adjustments are made for negative factors, and the economic contribution of all living and non-living improvements is estimated.

We believe the system we use is basically sound, and facilitates the appraisal process resulting in increased appraiser productivity.

Recommendation 8: Revise the system for identifying and controlling the audit appraisal workload.

A system has been implemented wherein computer-generated reports are now being provided enabling the Personal Property Division to accurately identify mandatory audits. This system was in the design phase of development at the time of the Survey. Stratification of accounts in the manner suggested by the survey is also now in effect.





Recommendation 9: Use probability of tax change for priority selection of non-mandatory accounts for audit.

A record is now being maintained of value differences (upward and downward), discovered by audit, within the stratifications noted in Recommendation 8. Audits will be scheduled where frequent and significant changes are noted within a stratum.

Effective fiscal year 1977-78, upon closing of the 1977 tax roll, a computer-generated report will inform us of assessments with value changes (upward or downward) which are ten percent or more at variance with values on the roll for the preceding year. This list will be analyzed and audits scheduled accordingly.

Additional methods of selecting accounts for audit are being explored. Random selection from the entire roll is a possibility. Selecting a predetermined number of accounts from various industries is another possibility.

As noted in the Survey, difficulty in meeting mandatory audit workloads has necessitated holding to a minimum the number of smaller non-mandatory accounts that are audited. However the raising of the mandatory limit from \$50,000 to \$100,000 effective January 1, 1977, will permit an expanded effort in auditing the non-mandatory accounts.

Recommendation 10: Implement ways to prevent escape assessments occurring because a taxpayer moved from or ceased doing business in the county.

Solutions to this problem are being studied and we expect to make significant progress in this area this year.

The computer-generated reports now being made available will enable us, beginning with the 1977-78 fiscal year, to maintain a better workload balance in terms of audit size and complexity.

Recommendation 11: Establish a system to cross-reference the secured and unsecured assessment files. The Assessor's parcel number should become part of the unsecured property account identifier.

At the time of the Survey, intensive study was being made on the design requirements for a new unsecured system in Riverside County which culminated in the development and implementation of the system for the 1977 Assessment Roll.

For the most part, all unsecured assessments now have been tied to secured parcel numbers along with situs addresses.

Multiple assessments are tied to a parent parcel number. Mandatory audits have been identified. Valuable historical assessment information has been captured and loaded into the on-line property data base.

The Personal Property Division which has for so long been handicapped by a lack of data processing support has been provided with several computer products to improve operations.





Recommendation 12: Prepare procedure manuals for those systems in the Assessor's office that are not automated.

Most of the procedures for manual operations are and were documented at the time of the Survey. Those that are not are in the process of being refined and edited by the Planning and Analysis Division for publication in the Operations Procedures Manual.

Recommendation 13: Generate a special computer report for changes in the "taxability code." Require written justification by a technician for each change.

Since all taxability code changes are listed in the daily journal of data base transactions processed, a special report of such transactions would be superfluous. The error referred to in the Survey was inadvertent and was caused by a Title Clerk not following proper procedure.

Recommendation 14: Institute an internal audit program. This program should be the responsibility of the Standards Division.

Admittedly this program has not received the attention it merits. Current priorities require Planning and Analysis Division personnel to concentrate their efforts on developing and implementing the new computer assisted appraisal system, and the new unsecured system. One of the important benefits of these new systems is that the computer programs provide a discipline that results in an automatic audit of some appraisal procedures.

It is anticipated that the workload of the Planning and Analysis Division will stabilize and that the Internal Audit Program can be expanded in 1977-78. Audits of some clerical procedures have been conducted since the Survey.





Recommendation 15: Determine the feasibility of combining one or more of the Assessor's branch offices.

We would agree for the sake of argument that maintaining nine district offices engenders some additional administrative burdens. However we are not convinced that eliminating them will result in any significant savings in cost. Certainly mileage costs would increase and production decrease for appraisers based in Riverside assigned to work in outlying areas. (Travel time from Riverside to Temecula is one hour, and to Banning and Hemet roughly 45 minutes.) Furthermore additional space would be required in Riverside to accommodate the additional personnel--appraisers and clerks--that would need to be reassigned from district offices to Riverside.

Over the years the Assessor's district offices have become a focal point for county government, providing valuable information and services to county residents. Eliminating them would isolate a large segment of the county population.

We are continually evaluating and improving district operations. The development of the new property appraisal computer system with its on-line capabilities has had a dynamic affect on district operations. Recent changes in organization structure, centralizing more appraisal responsibility in Riverside, have resulted in increased standardization of procedures and facilitated the integration of appraisal operations, as in the case of the Blythe area where appraisal activities are now integrated with the Indio District. We anticipate that other consolidations may be feasible in future years, as new growth patterns emerge in the county.

Recommendation 16: Protest the acceptance of late-filed assessment appeals.

In Riverside County applications for assessment appeals are filed with the Clerk of the Board of Supervisors. (The Clerk also functions as the Clerk of the Assessment Appeals Board.)

Late applications are processed by the County Counsel representative to the Assessment Appeals Board who directs the Clerk of the Board to set a hearing before the Appeals Board on the issue of jurisdiction. The Board may accept or reject the late application.

In the relatively few instances where late applications have been accepted by the Board the presumption has been in favor of the taxpayer--that he did not receive proper notification of a value increase under Secion 619 of the Revenue and Taxation Code, even though the Assessor's records show that such notice was in fact printed. Since the U.S. Mail Service is not always certain, late applications have not been aggressively challenged.

Recommendation 17: Plan and schedule a map refinement program.

This recommendation has been implemented. It is anticipated that two draftsmen can be assigned to the map refinement program in 1977-78. It should be noted that the mapping workload increased over 60 per cent in fiscal year 1976-77 rather than "20 to 30 per cent" reported in the Survey.





Recommendation 18: Draft a map-sales ordinance for approval of the County Board of Supervisors.

We have carefully studied this recommendation and have determined that, at least in Riverside County, the proposal would not be cost effective. To implement this proposal a new accounting function would first need to be established, funds for which are not available in the Assessor's budget. Furthermore the estimated demand for map copies appears to have been overstated in the Survey. Many potential map-sales users such as realtors and private appraisers already have the Assessor's maps conveniently available to them on microfiche through private companies. Residual demand is serviced by a local private blue print company. We are satisfied that our existing policy on providing map sales to the public is best for Riverside County, at this time.

Recommendation 19: Establish a pending file for Homeowner's Exemption claims on unsecured property.

Now that unsecured assessments have been added to the on-line property data base, the problem identified in the Survey has been eliminated. A pending file for "problem" Homeowner's Exemption claims has been established as recommended.



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